



**American Association
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for the Aging**

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**Testimony of
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**representing the
American Association of Homes and Services for the Aging**

Subcommittee on Housing and Community Opportunity

**Field Hearing:
Housing and Community Development Policies in the State of Ohio**

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Columbus, Ohio

My name is Tom Slemmer and I am here today representing the American Association of Homes and Services for the Aging (AAHSA), the largest organization representing nonprofit sponsors of senior housing. Our members own and manage more than 300,000 units of federally assisted and market rate housing – and we represent the largest number of sponsors of HUD Section 202 Supportive Housing for the Elderly projects. We are dedicated to the principle that housing is a critical part of the long-term care continuum.

In addition to being an AAHSA Board member, I am President of National Church Residences (NCR). NCR is one of the nation's largest nonprofit sponsors and managers of service-enriched affordable housing for seniors, including more than 14,000 federally assisted housing units located in 25 states.

I also am a member of the Association of Ohio Philanthropic Homes, Housing & Services for the Aging (AOPHA), a nonprofit organization representing more than 350 nonprofit, primarily faith-based long-term care services and senior housing providers in more than 150 communities statewide. Every day, AOPHA members serve more than 50,000 frail elderly and disabled persons and their families and employ more than 30,000 Ohioans.

New Construction

Department of Housing and Urban Development's Section 202 Program

The Section 202 program, the lifeblood of many AAHSA and AOPHA members, funds new construction in both urban and rural areas via construction grants and ongoing rental subsidy to both large and small nonprofit housing sponsors. Since its inception in 1959, the Section 202 program has provided housing for approximately 381,000 senior or disabled households in more than 9100 facilities (2002 Seniors Commission report). Currently, the program constructs about 5700 units a year of service-enriched housing affordable to seniors with very low incomes. More than 80% of residents have access to service coordination either through a HUD service

coordinator or staff (37%) or through service coordination available in the community (44%). The average age of a Section 202 resident is 75 years and the average income is \$10,014.

There is a critical need to expand the supply of suitable and affordable housing for low and moderate-income older persons. According to recent HUD data, more than 7.4 million households pay more than they can afford for their housing, including 1.4 million very low-income elderly people who pay more than 50% of their incomes for housing or live in substandard housing. None of these households receives any housing assistance. From 1993 to 2003, funding for HUD housing for the elderly has decreased from \$1.1 billion to \$786 million. Yet the demographic projections suggest that as the baby boomers age, the need will grow significantly.

While working to increase annual appropriations for the Section 202 program, we look forward to working with this subcommittee on implementing our recommendations to improve the pace of the development process. Among our recommendations:

- Offer extra points on the Section 202 application for nonprofits experienced in local housing development or those that partner with experienced nonprofits.
- Publish sample seed-money costs as part of the annual Notice of Funds Availability (NOFA).
- Implement the optional ability to leverage mixed financing sources such as low income housing tax credit equity and private activity bonds and use them in conjunction with Section 202 funds.
- Set adequate total development cost limits.
- Provide technical assistance funds for site control and predevelopment costs.

Low Income Housing Tax Credits and Other Mixed Financing Sources

Beyond the above changes to the Section 202 program, one single action by HUD, already acknowledged by Congress through statute as an effective new construction tool, should be taken immediately: that is, the release of implementing guidelines for Section 202 grantees to bring mixed financing sources, such as low income housing tax credit equity, into their developments. To date, 15 projects with proposed mixed financing have been stalled due in part to the lack of an implementing regulation. We are also working with the Internal Revenue Service on this issue.

Allowing such mixed financing may construct properties with more units, may provide for a greater income mix and bring more private capital into a venerable public program. However, HUD's position (contrary to statutory language) that implementing regulations are necessary to bring an array of mixed financing sources into Section 202 properties has caused Section 202 sponsors to miss years of state funding rounds for valuable resources such as mortgage revenue bonds and low income housing tax credits. This mixed financing authority was enacted in December 2000. HUD does not anticipate release of the regulations until this fall. We urge this subcommittee to work with HUD to release these regulations as soon as possible.

The ability of Section 202 properties to use financing mechanisms like tax credits can improve the entire program. Indeed, until such time as the development cost standards are revised to assure coverage of all development costs, the additional funds generated by tax credits and other sources are often necessary to make the Section 202 program work at all. As stated in a GAO report released June 17, 2003, "the capital advances that HUD awards do not always cover the

cost of developing projects.” When project sponsors need additional capital, they now turn to other funding sources like HUD’s HOME and CDBG programs, the Federal Home Loan Banks, Affordable Housing Program, state and local funds, gifts of land or other in-kind donations to the project, foundation funds, etc. Having to secure these secondary (or tertiary) financing sources can lead to project delays. However, the availability of tax credit equity may alleviate the need to search for additional resources to complete projects, which is why the mixed financing regulation is so critical.

HOME

As stated, HUD’s HOME funds are sometimes a source of secondary funds in a new Section 202 development. We support the expansion of the HOME program, without set asides, so that state and local governments can decide where their greatest needs are and how HOME funds can help them meet those needs. Virtually every affordable housing community developed with tax credits requires HOME funds for feasibility. One recent example of this is Hilltop Senior Village in Columbus where HOME funds were leveraged with tax credits to develop a critically needed affordable housing community for seniors on Columbus’s west side. There are over 300 people on the waiting list. In addition, NCR is building a 75 unit affordable housing community for seniors on Waggoner Road on the far east side of Columbus in a joint venture with the Columbus Housing Authority. Tax credits and tax exempt bonds were combined with HOPE VI funds and HOME funds to develop this project.

National Housing Trust Fund

In addition to supporting the HOME program, we also support efforts to enact a National Housing Trust Fund. Such a national trust fund would be targeted to new construction and preservation and include income targeting guidelines to ensure that the populations with the greatest need for affordable housing are receiving assistance. State and local governments would exercise control over the funds and would provide matching funds.

Section 8 Housing Choice Vouchers

NCR and many AAHSA members, in addition to using the resources of programs like Section 202, HOME and tax credits, also work with public housing authorities to obtain allocations of project-based Section 8 housing choice vouchers for developments to achieve deeper income targeting. And in some of our buildings without project based rental assistance, we willingly accept seniors with vouchers. Section 8 vouchers have proven to be very valuable tools in keeping rents low and projects operating.

We oppose the Administration’s proposal to transfer administration of the Section 8 voucher program to states. We agree with others’ analyses that the proposal, as set out in H.R. 1841, does not provide adequate Section 8 voucher funding to keep pace with housing costs over time. This basic problem will greatly decrease the private sector’s desire to participate in construction plans that involve any long-term reliance on project-based vouchers; and landlords will be loathe to accept tenants with vouchers if there are insufficient funds to increase rents over time. We also are deeply concerned that, under H.R. 1841, people receiving enhanced vouchers appear to lose this assistance after one year. Such a proposal represents a dramatic rollback of Congressional determination to protect residents whose housing has gone market-rate, many of whom are elderly.

Based on our experience, we know that today’s administrative system meets community needs very well. NCR and other AAHSA members have partnered with public housing authorities

with great success. Today's housing authorities have substantial flexibility and local authority over the administration of vouchers in their areas. This is one of the many benefits we fear will be lost if the administration of the program was transferred to the state level.

Finally, inserting a state middleman between the Federal government and the locality where the vouchers will be used and disrupting a system that is well established seems counterproductive and inefficient. In the end vouchers are used community by community; landlords own housing community by community; we believe the program should be administered locally. The proposal to transfer administration to states, we believe, represents a potentially significant dilution of most of the original intentions of the Section 8 voucher program.

The federal government must increase its financial commitment to addressing the nation's affordable housing needs. Programs like Section 202, HOME, a National Housing Trust Fund, low income housing tax credits and Section 8 vouchers can work well together if sufficient resources and program flexibility exist.

Preservation

As important as it is to continue to improve the Section 202 program and ensure federal resources exist for the construction of new, affordable senior housing units, the preservation of existing units is equally critical. It is our hope that Congress and HUD will augment efforts to preserve affordable, federally subsidized senior housing in the very near future.

In one form or another, HUD's Section 202 program has been building senior housing units since 1959. Since then, both the residents and the properties have aged in place. AAHSA is concerned not only with the declining number of new units and the slower pace of new construction, but also with the ability of project sponsors to assist seniors to age in place and the sponsors' ability to maintain decent, safe and affordable housing for generations to come.

More needs to be done to recognize the tremendous rehabilitation needs of some of the oldest senior housing stock, including older Section 202 and Section 236 properties. According to AARP, more than 45,000 units of Section 202 and 236 housing were built between 1959 and 1974, the earliest phase of federally subsidized senior housing production. Almost 20% of these properties reported to AARP that their capital reserves are inadequate to meet current repair needs. More than 10% of all Section 202 properties reported this same inadequacy. Only 8% of all Section 202 properties (built from 1959 to 1999) reported they had adequate capital reserves to retrofit their buildings to meet the known future needs of the property and its aging residents.

Furthermore, we continue to lose entire affordable, federally subsidized senior housing properties at an alarming rate. More needs to be done within HUD and its field offices to ensure properties are maintained as affordable when current owners want to opt out or prepay, or when a foreclosure is necessary

Refinancing

One preservation tool, refinancing, is a good example of Congressional action to preserve some of this older housing stock. Unfortunately, slow processing by HUD puts this potentially tremendous asset in grave danger of quickly becoming worthless. Properties looking to take advantage of new refinancing abilities, leveraging the equity in the properties, would recycle the savings back into the property, its aging residents, or both at no additional cost to the Federal government. If interest rates continue to climb, the benefits of refinancing will disappear. Now

is the time for HUD to fully streamline and implement its refinancing application processes and allow these properties some much-needed relief. Congress enacted the prepayment and refinancing authority in December of 2000. It is our understanding that only three applications have gone to closing.

Capital Repair Grants

Still another preservation tool, a program authorized by Congress in 1999 to provide capital repair grants to senior housing and grants to convert senior housing to assisted living, is not being implemented at the Department of Housing and Urban Development. The reason perhaps lies in how the appropriations bills characterized the funds for this grant program. Regardless, it is our hope that HUD will begin to release funds for the repair of older, federally subsidized senior housing as well as for conversion of units to assisted living pursuant to the express language of the statute.

Notices of funding availability from HUD in years 2000, 2001, 2002 and 2003 have only announced (and thus released) funds for the conversion of senior housing units into affordable assisted living. No funds have been made available by HUD to meet the repair needs of senior housing properties as intended by the 1999 statutory language. In anticipation of the FY2004 SuperNOFA, we hope that a grant announcement can be made for both worthy programs: repairs and conversion. We look forward to working with this subcommittee and the HUD appropriations subcommittee to ensure that Congressional intent with regard to these repair grants can be carried out at HUD.

Renewal of Section 8 Contracts

Section 8 rental assistance remains one of the most critical preservation tools available for affordable housing. It is critical not only to have sufficient funds available to renew each contract, but to have the ability to mark rents up to market or to budget in order to have a guaranteed stream of income as security for rehabilitation financing and to insure rent affordability for low income elderly for the long term. Lenders and investors have come to rely on Section 8 assistance in their underwriting even though they are fully aware that appropriations are year to year. However, they have also come to rely upon a 20-year contract for Section 8 assistance subject to yearly appropriations. It has recently come to our attention that HUD headquarters in Washington is refusing to enter into such 20-year contracts, which are expressly authorized in law, throwing a monkey wrench into preservation efforts. Nonprofits like NCR are willing to maintain properties as affordable for 30 year terms (and beyond), but investors are wary when HUD will not commit to 20 year terms subject to annual appropriations. I am hopeful that this glitch can be worked out or we will lose even more affordable housing.

Service Coordination

Service coordination is a key component to successful, affordable housing for elderly people. About 40% of Section 202 properties have service coordinators. To ensure that even more properties have access to service coordinators, we encourage Congress to establish a more reliable and stable source of funding for service coordinators by assuring adequate budget-based rent increases so that service coordinators can be part of a facility's routine operating expense.

In addition to increasing the number of properties with service coordinators, the quality of the program must be maintained. Up until this year, the very high standard for quality in the service coordinator program has been assured by the existence of Quality Assurance fees, a practice we promote and strongly recommend. In its fiscal year 2003 notice of funds availability (NOFA),

HUD decreases by half the amount of available funds for Quality Assurance while increasing the Quality Assurance requirements, thereby increasing costs to property sponsors for having a Quality Assurance program in place. It is our hope that HUD will increase the available Quality Assurance fees in its next service coordinator NOFA.

This year's NOFA also imposes a new cap on administrative fees within the service coordination program of 10%. According to analyses by the American Association of Service Coordinators, such a cap imposes unrealistic pressures on a service coordination program. A significant portion of administrative fees covers the training of service coordinators. HUD's training requirements have remained the same even though a new cap on administrative fees has been imposed. We are concerned that these two issues could have detrimental effects on the overall health of service coordination and look forward to working with Congress to ensure a high level of quality in the service coordinator program.

Ohio's Senior Housing Needs

As stated above, there are nine seniors waiting for every one Section 202 unit becoming available each year nationally. Between the (relatively) high incomes needed to attain modest apartments in Columbus and Ohio and the loss of federally-subsidized units to market rate rents, the fiscal year 2003 allocation of 255 new Section 202 units for Ohio does not go very far in meeting senior housing needs. According to the National Low Income Housing Coalition, a family needs an income of \$15,869 to afford the fair market rent for an Ohio efficiency; \$16,760 to afford the fair market rent for a Columbus efficiency. These are modest apartments, to say the least, representing only the 40th percentile of all rents. According to Harvard's *State of the Nation's Housing 2002*, 8.4 million of the nation's 21 million elderly households have incomes less than \$10,500 a year. Ohio's needs mirror the nation's senior housing needs.

Beyond the obvious need to increase the pace of new construction in Ohio, data show the clear need and opportunity to preserve more units of federally subsidized housing. According to the National Housing Trust, in research done for the Seniors Commission, since 1996 Ohio has lost more than 1500 units of federally-subsidized senior housing when owners either opted out of renewing Section 8 contracts or prepaid their mortgages. While many of the residents received enhanced vouchers, after the resident vacates his or her unit the unit-based federal subsidy is lost forever. The NHT data also show us what is at stake in the future: more than 9,800 federally-subsidized senior housing units are currently subsidized at a rate less than 90% of fair market rent. Because of their low subsidy rates, these owners have a particular incentive to transition to market rate apartments. We look forward to working with this subcommittee and with HUD on the preservation tools discussed above as well as others to ensure that as many of these units are saved as possible.

On behalf of National Church Residences, the American Association of Homes and Services for the Aging and the Association of Ohio Philanthropic Homes, Housing and Services for the Aging, thank you for this opportunity to testify.